Risks in the Retirement "Red Zone"

Meeting Today's Retirement Income Challenges

COMPASS
FINANCIAL GROUP
Guidance and Direction in Turbulent Times

What is the Retirement Red Zone

Prudential has defined **The Retirement Red Zone®** as the critical time period when you need a strategy for protecting your savings and income.

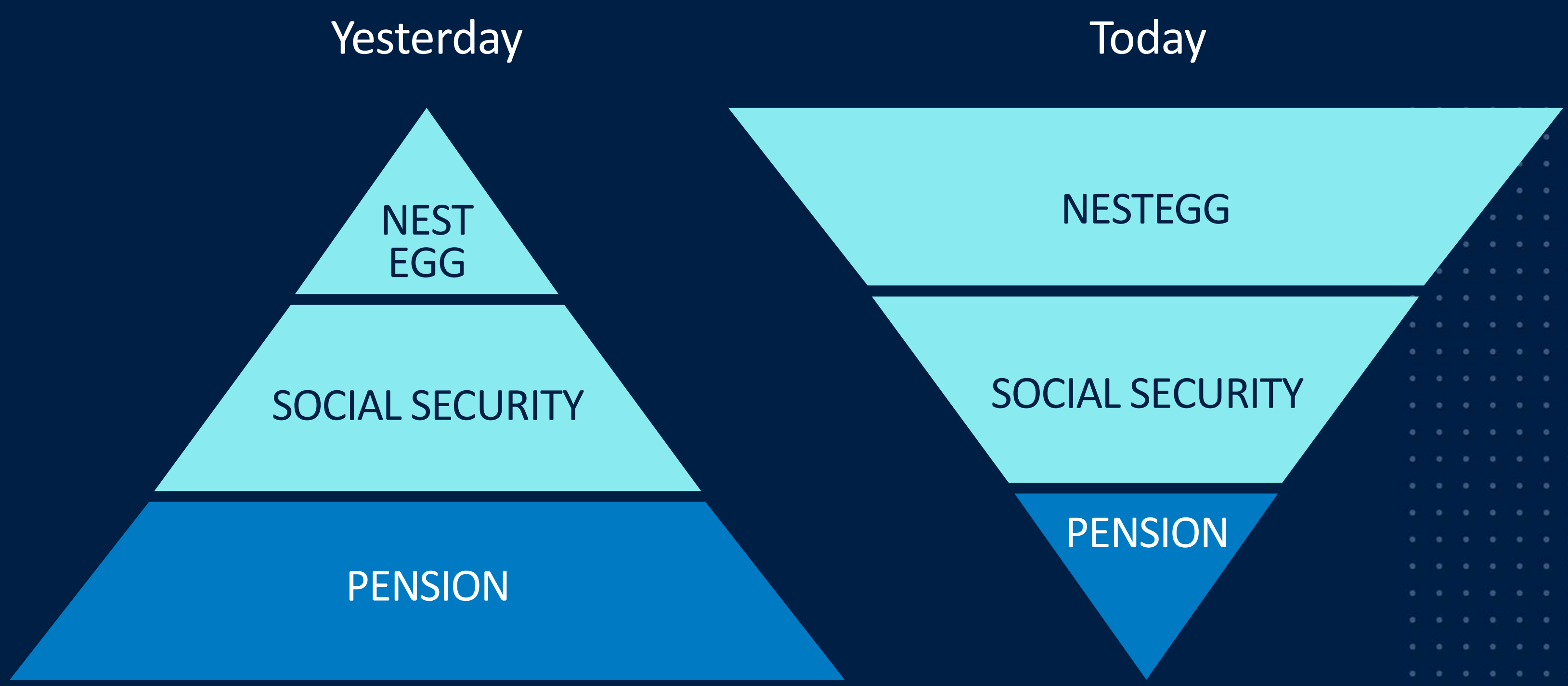
UNDERSTANDING TODAY'S RETIREMENT CHALLENGES

Retirement: Yesterday and Today

Retirement Red Zone Challenges

Managing Your Red Zone Challenges

RETIREMENT–YESTERDAY AND TODAY



THE KEY CHALLENGES YOU'LL FACE IN THE RETIREMENT RED ZONE

1 **CHALLENGE:**
Navigating uncertain markets

- Market Volatility
- Recovering from a down market
- Continued low interest rates
- Your reaction to market ups and downs

2 **CHALLENGE:**
Rising costs

- Inflation
- Healthcare costs

3 **CHALLENGE:**
Longer life spans

- Outliving your savings,
- Determining how much to withdraw each year

HISTORY OF BEAR MARKETS

1 **CHALLENGE:**
Navigating uncertain markets

1 **What is a bear market?**
- 20% loss from the most recent market peak*
- 15 bear markets since 1945*

2 **What is the average bear market loss since 1945?**
- 31%*

3 **Historically, how many bear markets have retirees faced on average?**
- 5 bear markets**

4 **Historically, how long has the average bear market lasted?**
- 11 months*

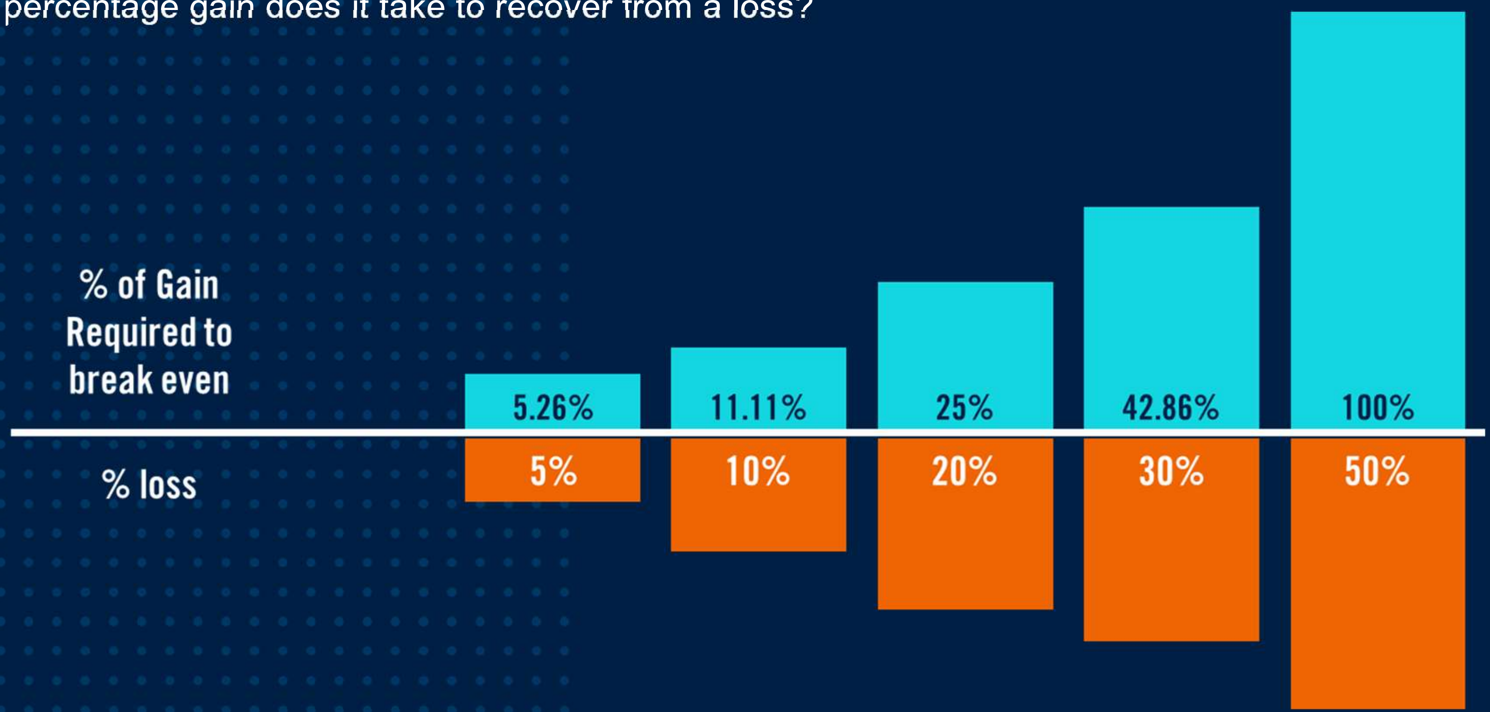
Historical data does not predict future results.
*S&P 500 data from spglobal.com accessed August, 2025.
**Assumes retiree age 65 with anticipated death at age 90, and an average 5.1 years between market peaks in the post-WWII era.

SEQUENCE OF RETURNS RISK - INCOME

1 **CHALLENGE:** Navigating uncertain markets

Mathematics Of Loss

What percentage gain does it take to recover from a loss?

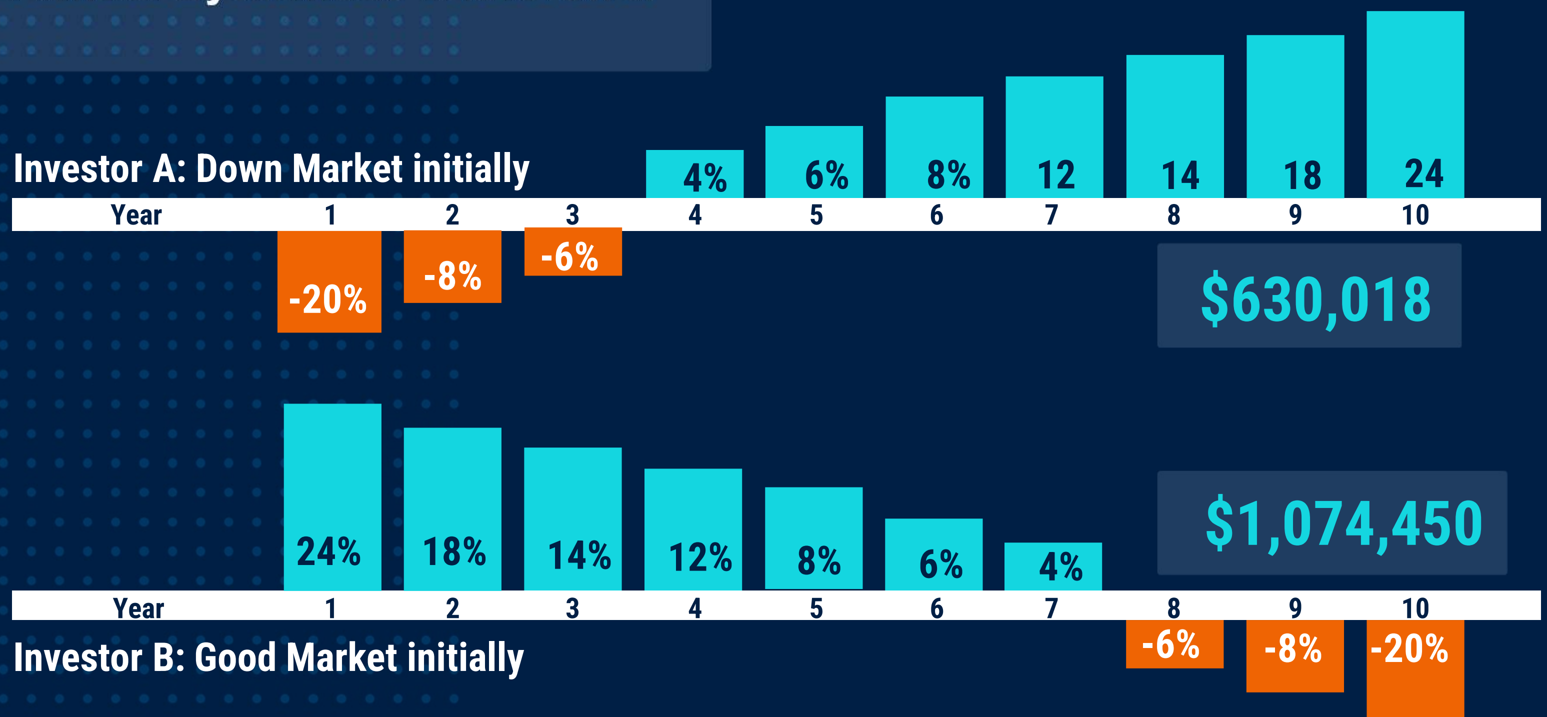


This is a hypothetical example for illustrative purposes only. It does not reflect an actual account value or the performance of any investment. Chart assumes no withdrawals are taken that year.

MARKET RISK

1 **CHALLENGE:**
Navigating uncertain markets

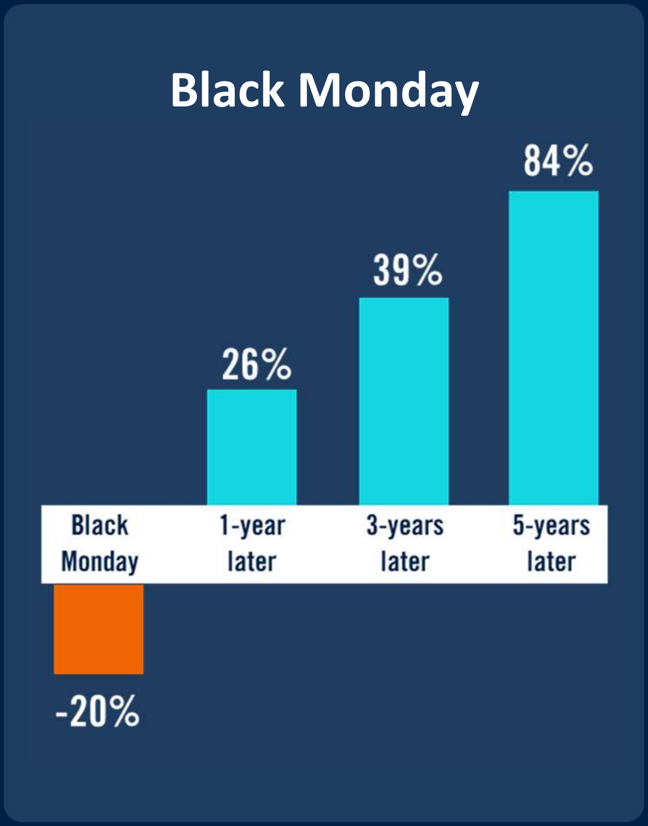
$1,000,000 Initial Investment
$50,000 Annual Systematic Withdrawal

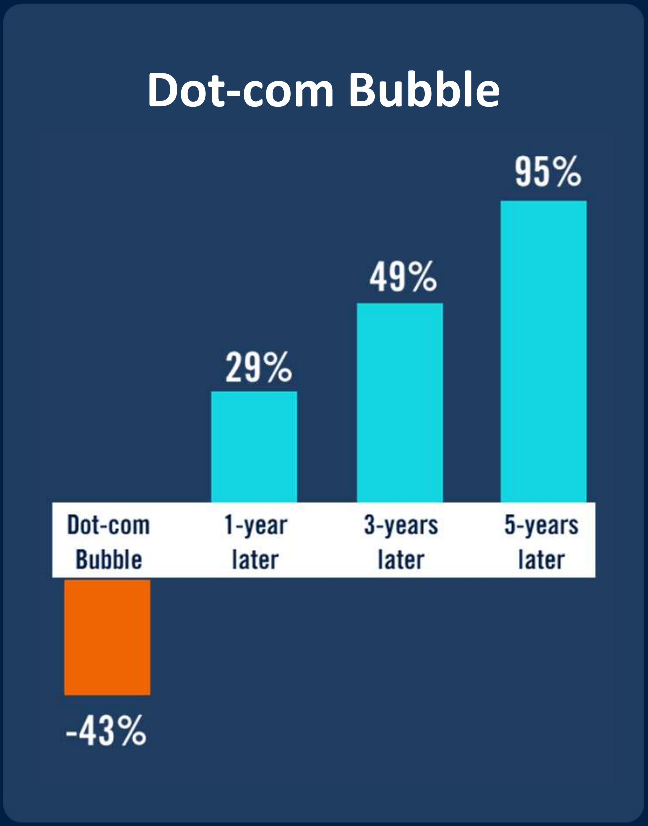


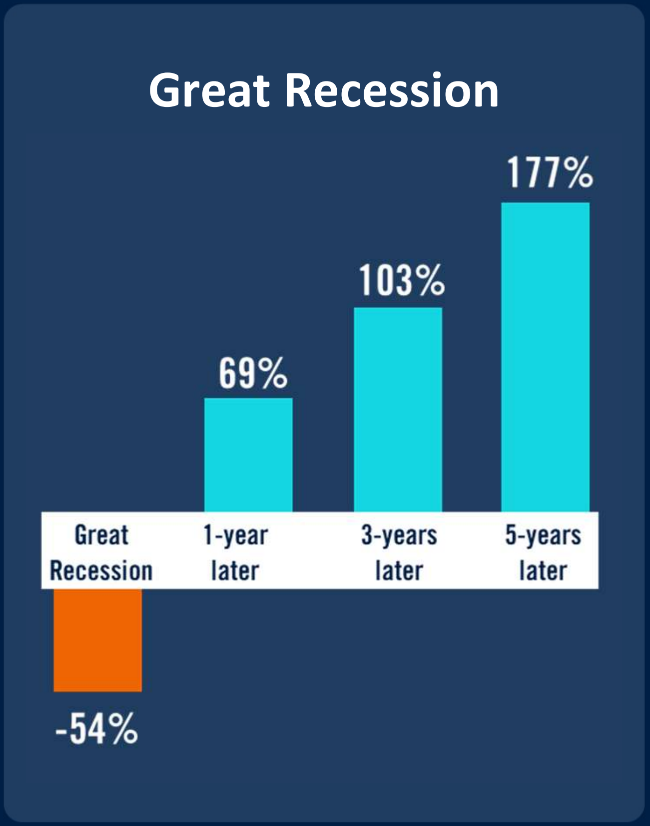
For Illustration Purposes Only: $1,000,000 initial investment 5.2% average rate of return, $50,000 annual systematic withdrawal.

CAN YOU STAY THE COURSE?

1 **CHALLENGE:** Navigating uncertain markets





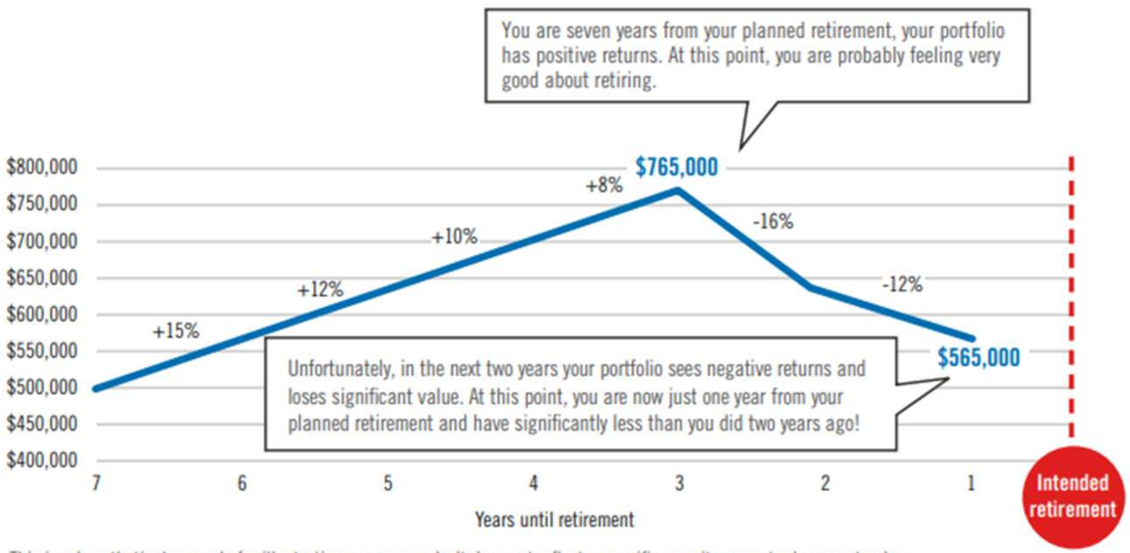


Stock market returns have historically rebounded substantially in the following year after a market decline.

As of 1/2024. Calculated by PGIM Investments using data presented in Morningstar software products.
Based on cumulative price returns for the S&P 500. Past performance is no guarantee of future results.

1 **CHALLENGE:** Navigating uncertain markets

WHAT IF YOU EXPERIENCE A DOWNTURN RIGHT BEFORE RETIREMENT?



This is a hypothetical example for illustrative purposes only. It does not reflect a specific annuity, an actual account value, or the performance of any investment.

Now, just one year from retirement, you face some tough choices. Do you:

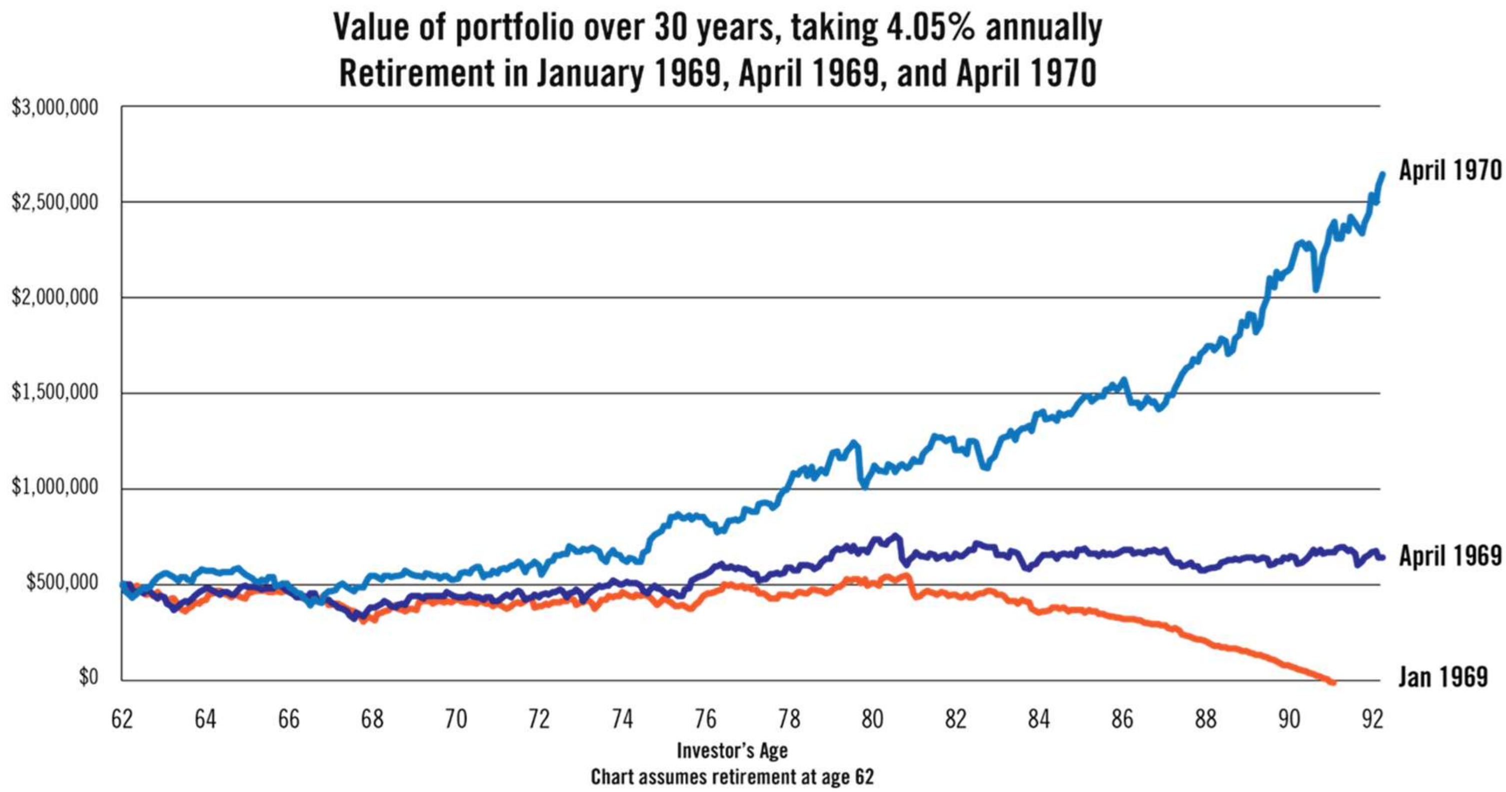
- Delay your retirement and work longer?
- Hope for unrealistic returns: +35% in one year?
- Lower expectations for your lifestyle in retirement?

Time is not on your side as there is not time to recover before you begin drawing from your account. Does anyone know someone who retired in 2008? How about 2020? Did they have to change their plans or expectations?

This is a hypothetical example for illustrative purposes only. It does not reflect an actual account value or the performance of any investment

THE LONG-TERM VIEW

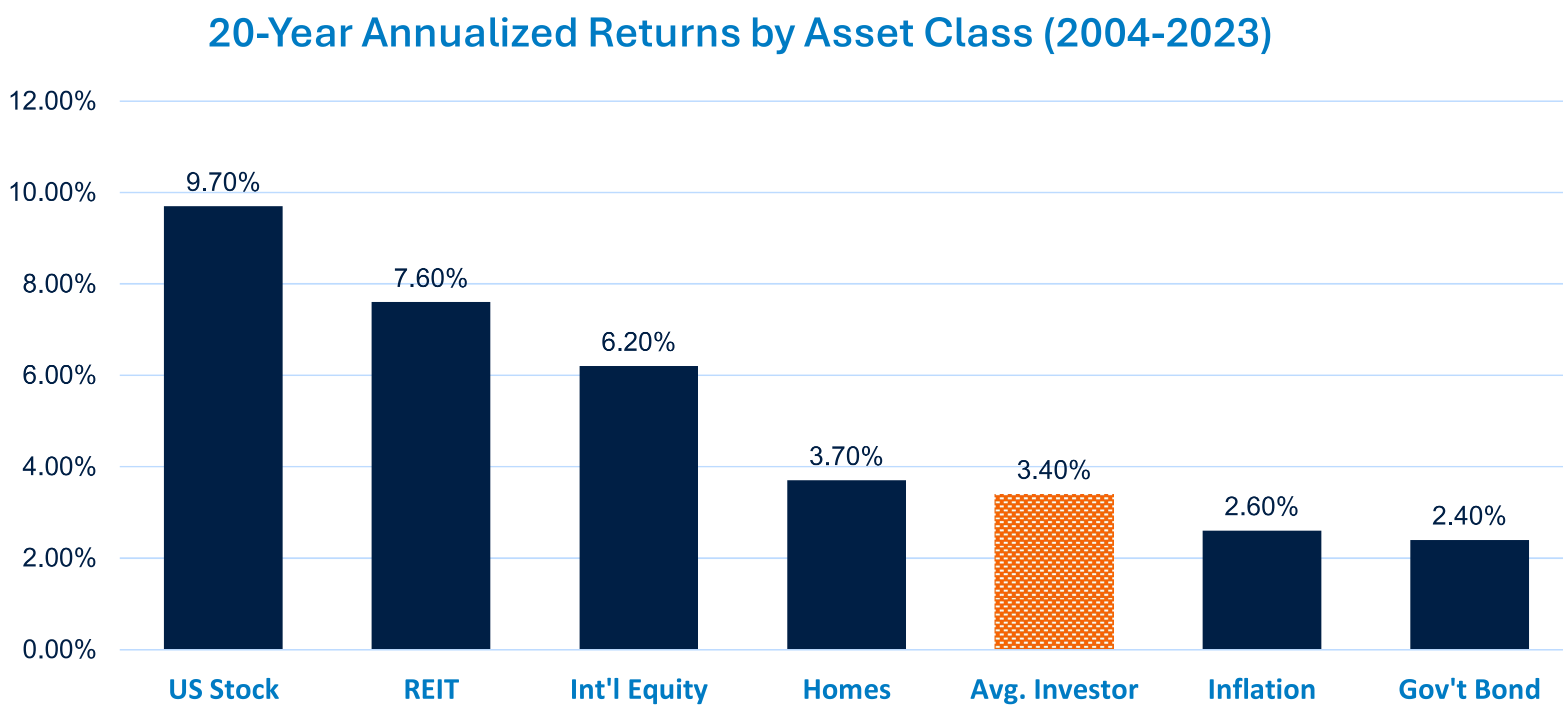
1 **CHALLENGE:**
Navigating uncertain markets



Accessed January, 2024: LIMRA Retirement Income Reference Book; LIMRA Secure Retirement Institute, October 2018; chart assumes $500,000 initial investment, 4.05% withdrawal adjusted annually for inflation; 42.5% Large Cap, 17.5% Small Cap, 40% Intermediate Government Bond, rebalanced annually

INVESTOR BEHAVIOR RISK

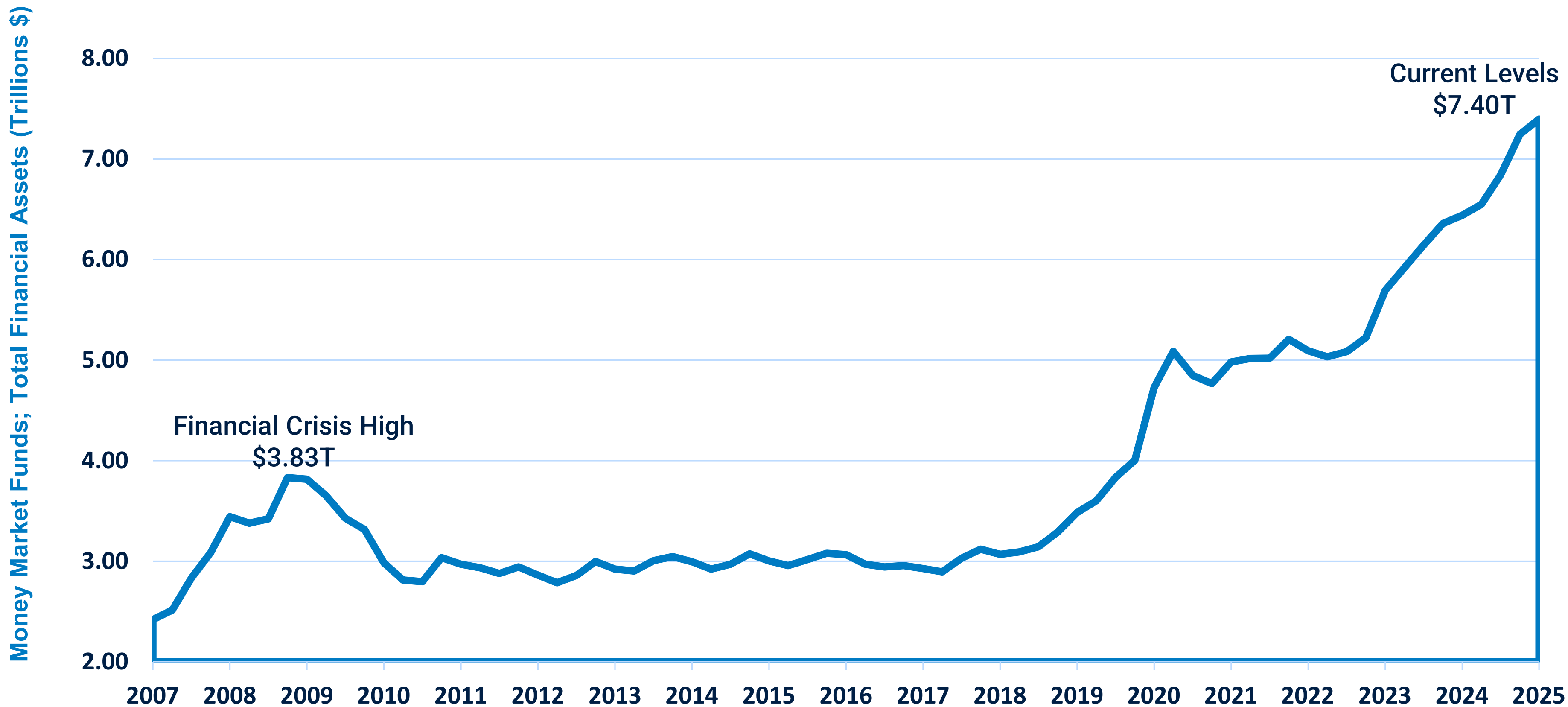
CHALLENGE:
Navigating uncertain markets



Source: Bloomberg, June 30, 2023. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, US Stocks are represented by the S&P 500 Index, international Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Global Aggregate TR Index, Homes are represented by US existing home sales median price, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance is no guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses, or sales charges.

FLIGHT TO SAFETY

1 **CHALLENGE:**
Navigating uncertain markets



Source: Federal Reserve Economic Data: https://fred.stlouisfed.org ;Money market Funds, Total Financial Assets January 1, 2007 to January 1, 2025; Data as of July 15, 2025

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2 **CHALLENGE:** Rising costs

INFLATION RISKS

- Creates an increased income demand for the remainder of a retiree's life
- Can be most damaging in later years of retirement

Average Annual Increase since 1982:

CPI	2.93%[1]
CPI-Elderly	3.00%[2]
Healthcare	4.22%[3]

1. Source: US BLS; based on CPI-W from 12/1982 through 10/2024; http://data.bls.gov/timeseries/CWUR0000SA0?output_view=pct_1mth
2. Source: US BLS; CPI-E is an experimental index, published data; 12/1982 through 10/2024 https://www.bls.gov/cpi/research-series/r-cpi-e-home.htm
3. Source: US BLS; based on Medical Care index from 10/1982 through 10/2024 : http://data.bls.gov/timeseries/CUUR0000SAM?output_view=pct_1mth

INFLATION RISKS

2 **CHALLENGE:** Rising costs

Even with modest inflation rates, purchasing power can be significantly reduced over a longer retirement.

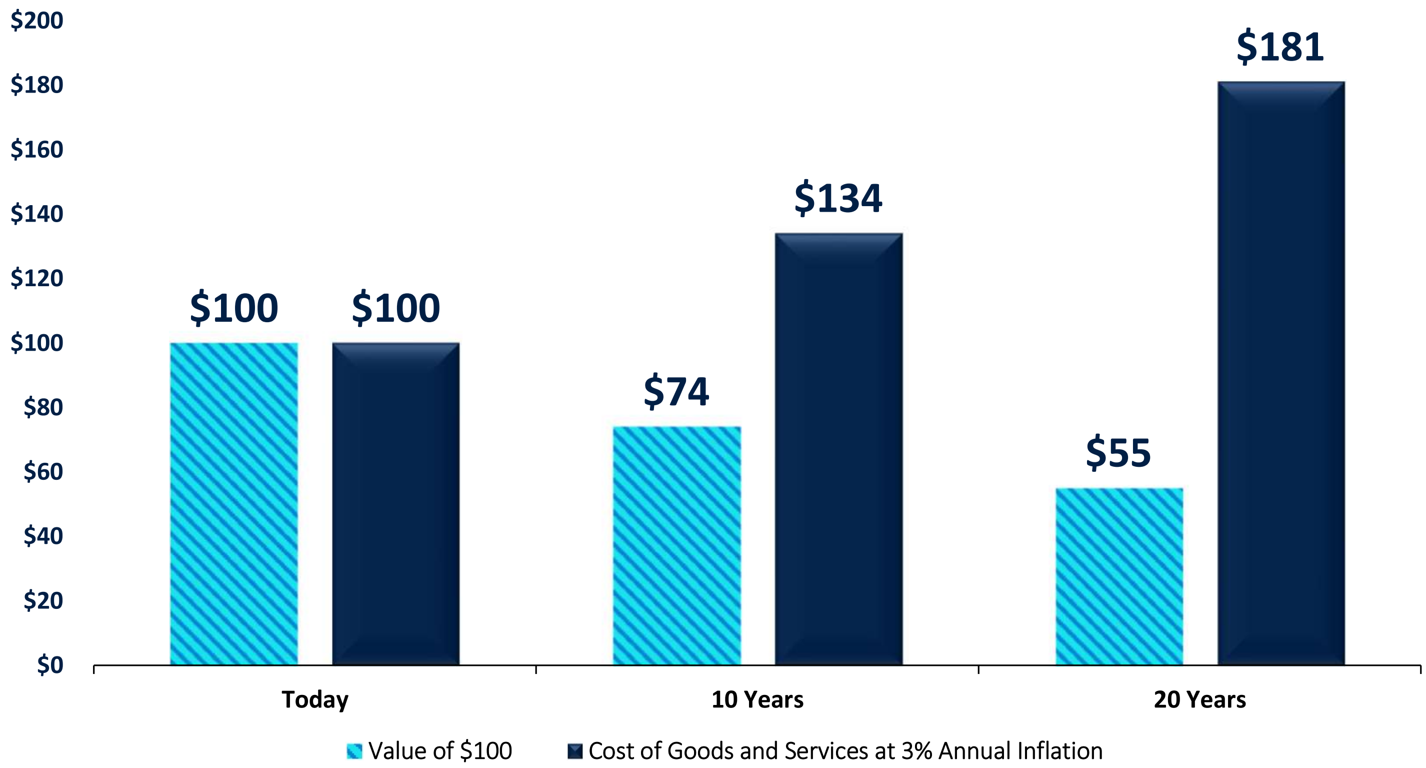
What will a $100,000 be worth in the future?

INFLATION RATE	10 YEARS	20 YEARS	30 YEARS
2%	$81,707	$66,761	$54,548
3%	$73,742	$54,379	$40,101
4%	$66,483	$44,200	$29,386
5%	$59,874	$35,849	$21,464
6%	$53,862	$29,011	$15,626

Source: Savings.org accessed 1/2024

ERODING PURCHASING POWER

2 **CHALLENGE:** Rising costs



Source: United States: inflation rate from 1900 to 2020, Statista, https://www.statista.com/statistics/191077/inflation-rate-in-the-usa-since-1990/, accessed January 2024.

CHALLENGE:
Rising costs

RISING COSTS: HEALTHCARE

It is estimated that an average, healthy 65-year-old couple will need

$330,000

to pay for medical expenses for the remainder of their lives.

This does not include long-term care costs*

[1] Fidelity Benefits Consulting estimate, 2024. Healthcare and nursing home costs may vary by state.

3 **CHALLENGE:**
Longer life spans

Longevity Risk

The Multiplier Risk

Expected life span of individuals and couples age 65*

50% are expected to live to age:

MEN	88
WOMEN	90
COUPLES (surviving spouse)	93

25% are expected to live to age:

MEN	88
WOMEN	90
COUPLES (surviving spouse)	93

49% chance one spouse will outlive the other by 10 years[1]

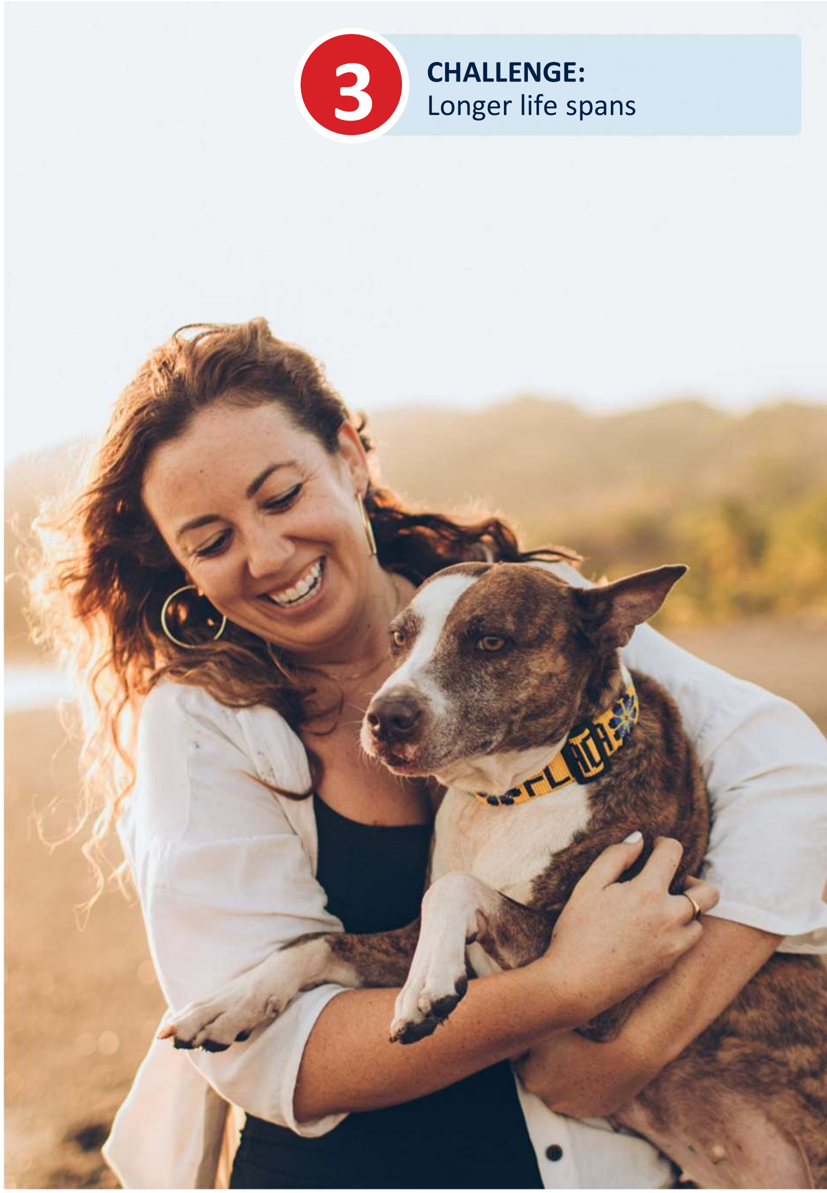
*Source: U.S. 2012 IAM Period Table, Society of Actuaries
[1] LIMRA Retail Retirement Reference Guide; LIMRA Secure Retirement Institute; October 2021

WITHDRAWAL RATE RISK

What is a Safe and Sustainable Withdrawal Rate?

THE RATE ONE CAN SAFELY WITHDRAW FROM THEIR RETIREMENT PORTFOLIO WITHOUT PREMATURELY DEPLETING THE ACCOUNT

Bengen (1994)[1]: 4%
Guyton (2004)[2]: 3.6% - 5.8%
Milevsky & Huang (2010)[3]: 3%
Pfau (2023)[4]: 2.7%



1. "Determining Withdrawal Rates Using Historical Data", William Bengen, Journal of Financial Planning, October 1994
2. "Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?", Jonathan Guyton; FPA Journal; October 2004
3. "Spending Retirement on Planet Vulcan: The Impact of Longevity Risk Aversion on Optimal Withdrawal Rates"; M.A. Milevsky & H. Huang; Retirement Income Journal, March 2010
4. "Retirement Income Dashboard For a Benchmark Couple Both Turning 65 in January 2023"; Conservative portfolio (25% stock allocation) with 2% spending COLA; Wade Pfau at https://retirementresearcher.com/dashboard/

MANAGING RETIREMENT RISKS

TRANSFERRING RISK CAN HELP:

- Cover Essential Expenses in Retirement
- Reduce Withdrawal Rate from Non-Guaranteed Investments
- Reduce Pressure on Other Retirement Assets
- “Free Up” Other Assets for Longer Term Investing

Managing Risks

A Avoid

R Retain

T Transfer

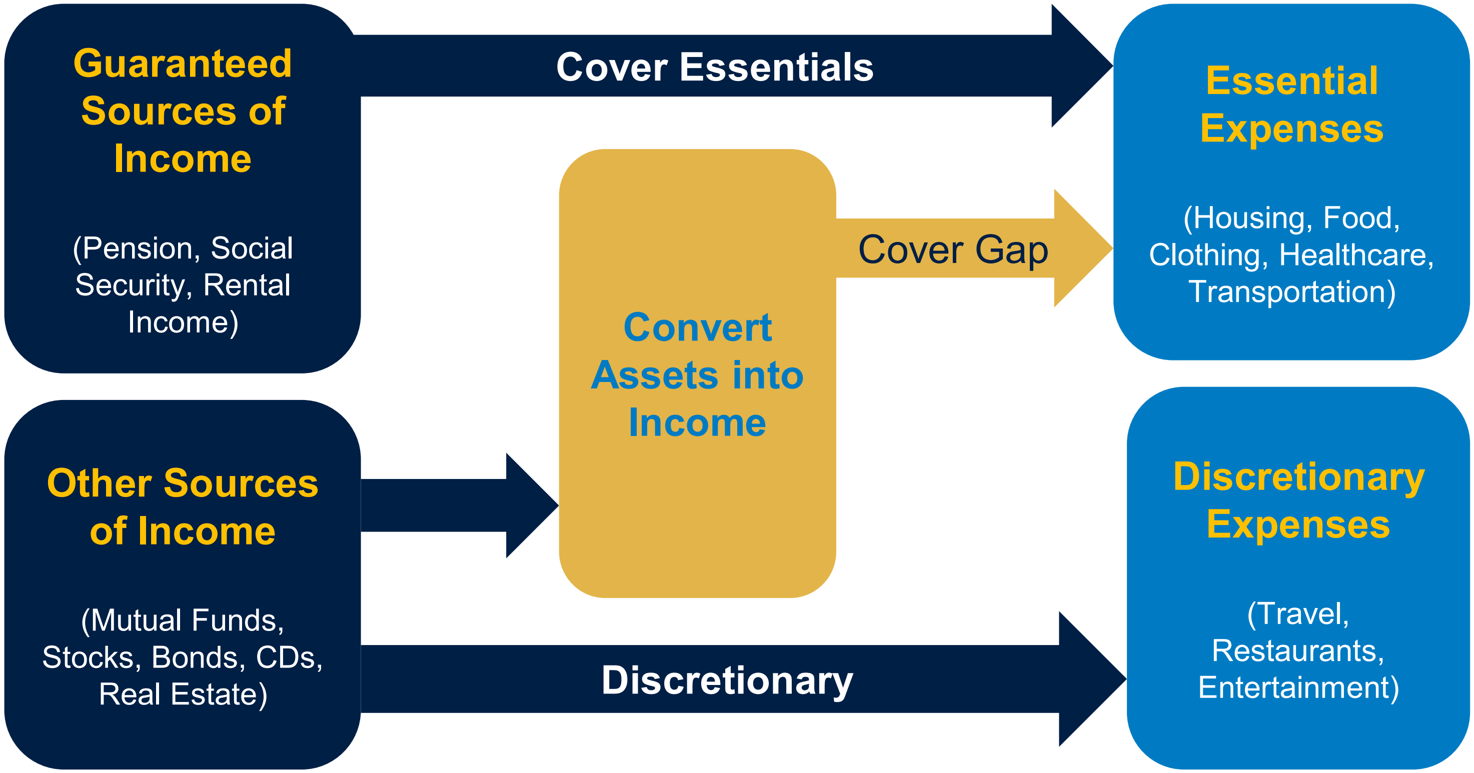
BUCKETING STRATEGY (Retain Risk)

CAN HELP YOU MANAGE:

- Market Risk
- Sequence of Return Risk
- Behavior Risk

…and can be leveraged to help protect a portion of a portfolio.

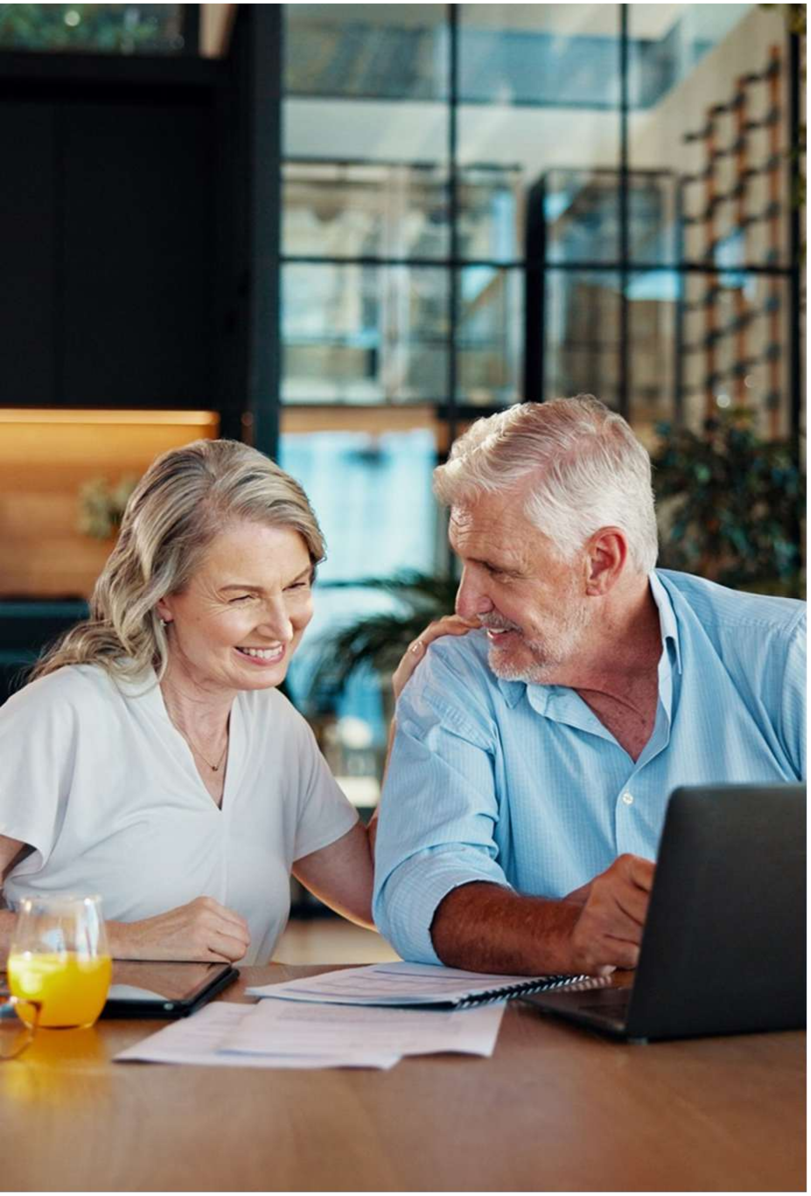
Example: Managing Retirement Income Challenges Through Planning



Example: Covering Essential Expenses

Essential Expenses		**$92,000**
• Housing/Food/Clothing/Transport/Utilities	$76,000	
• Healthcare	$16,000	
Guaranteed Income Sources		**$78,000**
• Pension	$24,000	
• Social Security	$54,000	
Income Gap		**($14,000)**

Hypothetical example for illustrative purposes only.



UNDERSTAND AND PLAN FOR TODAY'S RETIREMENT RED ZONE CHALLENGES

- ✓ Navigating uncertain markets
- ✓ Rising costs
- ✓ Longer life spans

DISCLOSURES

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MSCI EAFE (Europe, Australasia, Far East) is a widely accepted benchmark for international stock performance. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 developed markets, excluding the U.S. and Canada.

Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment grade, fixed rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, Mortgage-Backed Security (MBS), Asset-Backed Security (ABS) and Commercial Mortgage-Backed Security (CMBS) sectors.

S&P 500® Index is a market capitalization-weighted index of the 500 widely held stocks often used as a proxy for the stock market. S&P chooses the member companies for the 500 based on market size, liquidity and industry group representation.

Equity Securities Risk – The value of a particular stock or equity-related security held by a Portfolio could fluctuate, perhaps greatly, in response to a number of factors, such as changes in the issuer's financial condition or the value of the equity markets or a sector of those markets. Such events may result in losses to the Portfolio.

Fixed Income Securities Risk - Investment in fixed income securities involves a variety of risks, including that: an issuer or guarantor of a security will be unable to pay obligations when due; due to decreases in liquidity, the Portfolio may be unable to sell its securities holdings at the price it values the security or at any price; and the Portfolio's investment may decrease in value when interest rates rise. Volatility in interest rates and in fixed income markets may increase the risk that the Portfolio's investment in fixed income securities will go down in value. Risks associated with rising interest rates are currently heightened because interest rates in the US have begun to increase from historically low levels in recent years and may continue to increase in the future with unpredictable effects on the markets and the Portfolio's investments.

High Yield Risk - Investments in fixed income securities rated below investment grade and unrated securities of similar credit quality (i.e., high yield securities or junk bonds) may be more sensitive to interest rate, credit and liquidity risks than investments in investment grade securities, and have predominantly speculative characteristics.

Real Estate Risk – Investments in real estate investment trusts (REITs) and real estate-linked derivative instruments are subject to risks similar to those associated with direct ownership of real estate. Poor performance by the manager of the REIT and adverse changes to or inability to qualify with favorable tax laws will adversely affect the Portfolio. In addition, some REITs have limited diversification because they invest in a limited number of properties, a narrow geographic area, or a single type of property.

Thanks for spending time with me today!

If you have questions or would like to explore how this applies to *your* retirement, I'd be happy to connect.

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